



guzmán torres & co., psc
certified public accountants & business advisors

**PUERTO RICO AND MUNICIPAL ISLANDS
MARITIME TRANSPORT AUTHORITY**
(A Component Unit of the Commonwealth of Puerto Rico)

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT
AUTHORITY**

(A component Unit of the Commonwealth of Puerto Rico)

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INDEPENDENT AUDITORS' REPORT

Hon. Rubén A. Hernández Gregorat, MEM, P.E.
Secretary Department of Transportation and Public Works

We have audited the accompanying statements of net assets of the Puerto Rico and Municipal Islands Maritime Transport Authority (the Authority), a component unit of the Commonwealth of Puerto Rico as of June 30, 2011 and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The Authority has not made a physical count of its parts inventory and due to lack of accounting records we have been unable to satisfy ourselves by means of other auditing procedures about inventory quantities. As a result the Authority has been unable to determine the amount of the parts inventory that should be recorded in the financial statements.

The Authority did not provide an actuarial valuation report to record the liability and current year cost of the certain post employment benefits described in Note 9 to the financial statements as required by accounting principles generally accepted in the United States of America ("GAAP"). The cost of these benefits are recorded in the financial statements when paid which is a method not accepted by GAAP.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the physical count of the parts inventory and being able to determine the cost of the parts inventory that should be recorded in the financial statements and had we been able to obtain an actuarial report to record the cost and the liability of the post employment benefits as required by GAAP as described in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Puerto Rico and Municipal Islands Maritime Transport Authority at June 30, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12 to the financial statements, the Authority received operating assistance from the Commonwealth of Puerto Rico to assist in the financing of the Authority's operations. The amount of such assistance indicates that the Authority may require continued assistance in order to operate at its current level.

The management's discussion and analysis information on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Guzmán Torres & Co., P.S.C.

Certified Public Accountants
September 23, 2011

Stamp # **2631113**
was affixed to
the original of
this report.

PUERTO RICO AND MUNICIPAL ISLANDS MARITIME TRANSPORT AUTHORITY

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

(Unaudited)

The following discussion and analysis of the financial performance and activity of the Puerto Rico and Municipal Islands Maritime Transport Authority ("the Authority") provides an introduction and understanding of the basic financial statements of the Authority for the fiscal years ended June 30, 2011. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Financial Highlights for 2011

- Net assets deficiency totaled \$8.1 million at June 30, 2011.
- Net assets deficiency decreased by \$18.4 million in 2011, as compared to a decrease in of approximately \$3.0 million in 2010.
- Net capital assets totaled \$52.9 million at June 30, 2011.
- Net capital assets increased by 19.5% at June 30, 2011, when compared with the balance at June 30, 2010 of \$44.3 million.

Financial Highlights for 2010

- Net assets deficiency totaled \$26.5 million at June 30, 2010.
- Net assets deficiency decreased by \$3.0 million in 2010, as compared to a decrease in of approximately \$5.7 million in 2009.
- Net capital assets totaled \$44.3 million at June 30, 2010.
- Net capital assets increased by 17.2% at June 30, 2010, when compared with the balance at June 30, 2009 of \$37.8 million.

The Financial Statements

The basic financial statements provide information about the Authority's business-type activities. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Financial Statements for Business-Type Activities

The financial statements consist of the (1) statement of net assets, (2) statement of revenues, expenses, and changes in net assets, (3) statement of cash flows, and (4) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with accounting principles generally accepted in the United States of America.

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME
TRANSPORT AUTHORITY**
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

(Unaudited)

Statement of Net Assets

The statement of net assets reports all financial and capital resources of the Authority. The statement is presented in the format where assets equal liabilities plus net assets. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and non-current. The focus of the statement of net asset is to show a picture of the liquidity and health of the Authority's financial position as of the end of the year.

The Authority's net assets are reported in the following categories:

- *Net Assets Invested in Capital Assets, Net of Related Debt* - this component of net assets consists of all capital assets, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations and from the operating grant allocated annually by the Commonwealth of Puerto Rico, since the capital assets themselves cannot be used to liquidate liabilities.
- *Unrestricted Net Assets* - this component includes all net assets that do not meet the definition of net assets invested in capital assets.

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets includes operating revenues, which consist of passenger and cargo revenues and equipment and property rentals and operating expenses, such as salaries and employees benefits, depreciation on capital assets, repairs and maintenance and other general administrative expenses; and non-operating revenues and expenses, such as the operating grants from the Commonwealth of Puerto Rico, interest and investment income, and interest expense. The focus of the statement of revenues, expenses, and changes in net assets is the change in net assets. This is similar to net income or loss and portrays the results of operations of the Authority for the entire operating period.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used for operating activities, investing activities, noncapital financing activities, and from capital and related financing activities. This statement also portrays the health of the Authority in that current cash flows are sufficient to pay current liabilities.

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME
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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

(Unaudited)

Notes to Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, long-term liabilities, defined-benefit pension plans, and the commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management discussion and analysis and the financial statements.

Financial Analysis of the Authority's Business-Type Activities

Statements of Net Assets

The following table reflects a condensed summary of assets, liabilities, and net assets of the Authority as of June 30, 2011, 2010, and 2009:

	June 30,		
	2011	2010	2009
ASSETS			
Current assets	\$ 5,113,167	\$ 6,903,253	\$ 3,256,822
Capital assets	52,952,902	44,278,250	37,776,068
Total assets	<u>\$ 58,066,069</u>	<u>\$ 51,181,503</u>	<u>\$ 41,032,890</u>
LIABILITIES			
Current liabilities	\$ 25,561,189	\$ 27,490,568	\$ 20,407,322
Long-term liabilities	40,612,913	50,190,213	50,190,213
Total liabilities	<u>66,174,102</u>	<u>77,680,781</u>	<u>70,597,535</u>
NET ASSETS			
Invested in capital assets, net of related debt	49,588,623	39,699,294	35,302,618
Deficiency in unrestricted net assets	(57,696,656)	(66,198,572)	(64,867,263)
Total net assets	<u>(8,108,033)</u>	<u>(26,499,278)</u>	<u>(29,564,645)</u>
Total liabilities and net assets	<u>\$ 58,066,069</u>	<u>\$ 51,181,503</u>	<u>\$ 41,032,890</u>

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME
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(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

(Unaudited)

June 30, 2011

Current assets decreased by 25.9% to \$5.1 million. The change in current assets is primarily due to a decrease in capital contributions receivables from the Federal Transit Administration of \$1.5 million as compared to last year receivable.

Capital assets increased by 19.6% to \$53 million due to the acquisition and improvements of maritime transportation equipment, piers and terminals structures. Capital assets are funded with the proceeds from operations and operating and capital grants from the Commonwealth of Puerto Rico. In addition, the Authority is a sub recipient from the Puerto Rico Ports Authority (Ports Authority) of certain funds under Federal program 20.507 "Urban Mass Transportation Capital and Operating Assistance Formula Grant" granted by the Federal Transit Administration which is used to finance the capital improvement program. Total capital grants received from the Federal Transit Administration and the Commonwealth of Puerto Rico during fiscal year 2011 amounted to approximately \$7.6 million.

Current liabilities decreased by 7% to \$25.6 million. This decrease consists principally of a decrease of \$2.2 million in property insurance premium payable recorded as a prepaid in the current year.

Long-Term Debt decrease of 19.8% to \$40.6 million consists principally of a decrease of \$15 million of amounts due to the Puerto Rico Ports Authority amounting to approximately \$34.9 million in 2011 and \$50.2 million in 2010. This amount consists of advances for the payment of operating expenses. This amount bears no interest and has no formal repayment terms and will be paid as cash becomes available, principally from operating grants from the Commonwealth of Puerto Rico which amounted to \$15 million during 2011.

In addition during the year ended June 30, 2011 long-term liabilities includes advances received from the Puerto Rico Highways and Transportation Authority in the amount of approximately \$3.8 and a liability of approximately \$1.9 million for voluntary termination benefits explained below.

Deficiency in net assets decreased 69.4% to \$8.1 million. This decrease was the result of an excess of revenues (operating and non-operating) over expenses (operating and non-operating) and capital grants of \$18.4 million. The largest portion of the Authority's net assets represents its investment in capital assets net of related debt outstanding used to acquire those capital assets.

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME
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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

(Unaudited)

June 30, 2010

Current assets increased by 112% to \$6.9 million. The change in current assets is primarily due to an increase in cash and in accounts receivable from federal government.

Capital assets increased by 17.2% to \$44.3 million due to the acquisition and improvements of maritime transportation equipment, piers and terminals. Capital assets are funded with the proceeds from operations and operating and capital grants from the Commonwealth of Puerto Rico. In addition, the Authority is a sub recipient from the Puerto Rico Ports Authority (Ports Authority) of certain funds under Federal program 20.507 "Urban Mass Transportation Capital and Operating Assistance Formula Grant" granted by the Federal Transit Administration which is used to finance the capital improvement program. Total capital grants received from the Federal Transit Administration and the Commonwealth of Puerto Rico during fiscal year 2010 amounted to approximately \$10 million.

Current liabilities increased by 34.7% to \$27.5 million. This increase consists principally of an increase in accounts payable and accrued expenses payable.

Long-Term Debt consists principally of amounts due to the Puerto Rico Ports Authority amounting to approximately \$50.1 million. This amount consists of advances for the payment of operating expenses. This amount bears no interest and has no formal repayment terms and will be paid as cash becomes available, principally from operating grants from the Commonwealth of Puerto Rico.

Deficiency in net assets decreased 10.1% to \$26.5 million. This decrease was the result of an excess of revenues (operating and non-operating) over expenses (operating and non-operating) and capital grants of \$20.8 million. The largest portion of the Authority's net assets represents its investment in capital assets net of related debt outstanding used to acquire those capital assets.

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME
TRANSPORT AUTHORITY**
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

(Unaudited)

The following table reflects a condensed summary of the revenues, expenses, and changes in net assets for the years ended three years ended June 30, 2011:

	Years Ended June 30,		
	2011	2010	2009
Operating revenues	\$ 4,257,995	\$ 4,611,986	\$ 4,172,290
Operating expenses	41,576,481	33,285,467	33,313,548
Operating loss	<u>(37,318,486)</u>	<u>(28,673,481)</u>	<u>(29,141,258)</u>
Non-operating revenues:			
Operating grants	44,113,321	21,774,634	22,669,097
Interest income (expense), net	<u>(67,094)</u>	<u>(106,355)</u>	<u>(160,296)</u>
Total non-operating revenues	<u>44,046,227</u>	<u>21,668,279</u>	<u>22,508,801</u>
Loss before capital contributions	6,727,741	(7,005,202)	(6,632,457)
Capital contributions	<u>11,663,504</u>	<u>10,070,569</u>	<u>12,370,680</u>
Change in net assets	18,391,245	3,065,367	5,738,223
Net assets deficit at beginning of year	<u>(26,499,278)</u>	<u>(29,564,645)</u>	<u>(35,302,868)</u>
Net assets deficit at end of year	<u><u>\$ (8,108,033)</u></u>	<u><u>\$(26,499,278)</u></u>	<u><u>\$(29,564,645)</u></u>

Year Ended June 30, 2011

Operating revenues consisted of passenger, cargo and rental charges, decreased by 7.7% to \$4.3 million mainly due to a decrease in vessels size and trips to Culebra due to pier repairs during the year.

Operating expenses consisted principally of salaries and employees benefits, depreciation and amortization, repairs and maintenance, diesel, insurance, professional services and general and administrative increased 24.9%, or \$8.3 million to \$41.6 million. This increase was due mainly to an increase in repairs and maintenance costs of \$3.1 million as a result of the scheduled dry-dock overhauling of vessels, the increase in diesel consumption by bigger vessels like Cayo Blanco (new addition to the fleet) and the increase in the use of Cayo Largo throughout the year and the increase in compensation for the benefits of a voluntary termination benefit adopted during the year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

(Unaudited)

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50 % of each employee' salary, as defined. In this early retirement benefit program, the Authority will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth of Puerto Rico.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of \$2,058,600 in the statement of net assets as of June 30, 2011 and a charge of \$2,131,200 in the statement of activities for the year ended June 30, 2011. At June 30, 2011, unpaid long-term benefits granted on this program were discounted at 2.99%.

Non-operating revenues consisted principally of operating grants from the Commonwealth of Puerto Rico and Federal Transit Administration. Operating grants from the Commonwealth of Puerto Rico are annual appropriations from the general fund of the Commonwealth of Puerto Rico. The amount appropriated annually depends on the approved budget of the Commonwealth of Puerto Rico. Operating grants from Federal Transit Administration are restricted to maintenance activities of certain capital assets.

Capital contributions represent amounts received as sub recipient from the Puerto Rico Ports Authority under grants from Federal Transit Administration and from the Commonwealth of Puerto Rico which are restricted to the acquisition and repairs of certain capital assets.

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME
TRANSPORT AUTHORITY**
(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2011 AND 2010

(Unaudited)

Year Ended June 30, 2010

Operating revenues consisted of passenger, cargo and rental charges, increased by 10.5% to \$4.7 million mainly due to increase in patronage during the year.

Operating expenses, which consisted principally of salaries and employees benefits, depreciation and amortization, repairs and maintenance, diesel, insurance, professional services and general and administrative decreased by .08% to \$33.2.

Non-operating revenues consisted principally of operating grants from the Commonwealth of Puerto Rico and Federal Transit Administration. Operating grants from the Commonwealth of Puerto Rico are annual appropriations from the general fund of the Commonwealth of Puerto Rico. The amount appropriated annually depends on the approved budget of the Commonwealth of Puerto Rico.

Capital contributions represent amounts received as sub recipient from the Puerto Rico Ports Authority under grants from Federal Transit Administration and from the Commonwealth of Puerto Rico which are restricted to the acquisition and repairs of maritime transportation equipment.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the Authority had invested approximately \$53 million in capital assets (net of related depreciation) including maritime transportation equipment, improvements to piers and other structures used in the operations and construction in progress. At June 30, 2010, the Authority had invested approximately \$44.3 million in capital assets.

Major capital assets events during the years ended June 30, 2011 includes the acquisition and repairs of maritime transportation equipment which were funded principally by capital contributions received.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patrons, and other interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have question or need additional financial information, contact the Puerto Rico and Municipal Islands Maritime Transport Authority, Finance Area, P.O. Box 4306, Puerto Real, Puerto Rico 00740.

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME
TRANSPORT AUTHORITY
(A Component Unit of the Commonwealth of Puerto Rico)**

STATEMENT OF NET ASSETS
JUNE 30, 2011

Assets

Current assets

Cash and cash equivalents	\$ 290,525
Accounts receivable	2,985,347
Inventory	62,582
Prepaid expenses	1,774,713
Total current assets	5,113,167

Capital assets, net of accumulated depreciation	52,952,902
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Total assets	\$ 58,066,069
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Liabilities

Current liabilities:

Borrowings under line of credit	\$ 126,203
Checks issued over bank balance	1,464,606
Accounts and accrued expenses payable	16,747,320
Deferred revenue	7,223,060
Total current liabilities	25,561,189

Non-current liabilities:

Due to other governments of instrumentalities	38,688,113
Voluntary termination benefits	1,924,800
Total long-term liabilities	40,612,913

Total liabilities	66,174,102
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Net assets deficiency:

Invested in capital assets, net of related debt	49,588,623
Unrestricted deficit	(57,696,656)
Net assets deficiency	(8,108,033)

Total liabilities and net assets deficiency	\$ 58,066,069
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The accompanying notes are integral part of the financial statements

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME
TRANSPORT AUTHORITY**
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011

Operating revenues:	
Passenger and cargo revenues	\$ 4,077,237
Equipment and property rentals	180,758
Total operating revenues	4,257,995
Operating expenses:	
Salaries and employee benefits including voluntary termination benefits of \$2,131,200	21,298,178
Depreciation and amortization	3,125,743
Repairs and maintenance	5,289,171
Insurance	2,464,307
Professional services	2,313,471
Diesel	5,408,293
General and administrative	1,677,318
Total operating expenses	41,576,481
Operating loss	(37,318,486)
Non-operating revenues (expenses)	
Operating grants:	
Commonwealth of Puerto Rico	40,567,143
Federal Transit Administration	3,546,178
Interest and other financing expenses	(66,758)
Interest income	(336)
Total non-operating revenues	44,046,227
Income/(Loss) before capital contributions	6,727,741
Capital contributions	11,663,504
Change in net assets	18,391,245
Net assets deficiency:	
Beginning of year	(26,499,278)
End of year	\$ (8,108,033)

The accompanying notes are integral part of the financial statements

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME
TRANSPORT AUTHORITY**
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

Cash flows from operating activities:	
Cash received from customers and users	\$ 4,188,969
Cash payments to suppliers for goods and services	(17,174,700)
Cash payments to employees for services	(19,629,044)
Net cash used in operating activities	(32,614,775)
Cash flows from non-capital financing activities:	
Operating grants:	
Commonwealth of Puerto Rico	40,567,143
Federal Transit Administration	3,546,178
Net change in checks issued over bank balance	(682,016)
Interest paid	(52,748)
Net cash provided by non-capital financing activities	43,378,557
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(13,015,072)
Capital contributions	13,183,067
Net cash provided by (used in) capital and related financing activities	167,995
Cash flows from financing activities:	
Due to other governmental entities	(11,502,100)
Net increase (decrease) in cash and cash equivalents	(570,323)
Cash and cash equivalents:	
Beginning of year	860,848
End of year	\$ 290,525

The accompanying notes are integral part of the financial statements

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME
TRANSPORT AUTHORITY
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STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

Reconciliation of operating loss to net cash used in

by operating activities:

Operating loss	\$(37,318,486)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	3,125,743
Changes in operating assets and liabilities:	
Accounts receivable	(69,026)
Inventory	-
Prepaid expenses	(230,774)
Accounts and accrued expenses payable	(47,032)
Voluntary termination benefits long-term portion	1,924,800
Net cash used in operating activities	<u><u>\$(32,614,775)</u></u>

Non-cash transaction:

Accounts payable incurred in the acquisition of capital assets	<u><u>\$ 3,364,279</u></u>
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The accompanying notes are integral part of the financial statements

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME
TRANSPORT AUTHORITY**
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011

1. Organization and Summary of Significant Accounting Policies

Puerto Rico and Municipal Islands Maritime Transport Authority (“the Authority”) is a public corporation and instrumentality of the Commonwealth of Puerto Rico, created by Act No. 1 approved on January 1, 2000, as amended, to administer and operate the maritime transportation services between Hato Rey and San Juan and Fajardo, Vieques and Culebra. The Authority is a component unit of the Commonwealth of Puerto Rico and accordingly is included in the general-purpose financial statements of the Commonwealth. The powers normally exercised by a Board of Directors are vested with the Secretary of the Department of Transportation and Public Works (DTPW). The Authority is exempt from the payment of any taxes on its revenues and properties.

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities. The Authority follows the Governmental Accounting Standard Boards (“GASB”) under the hierarchy established by Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for States and Local Governments, in the preparation of its financial statements.

The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting (“GASB 20”). In adopting GASB 20, the Authority elected to apply all Statements and Interpretations of the Financial Accounting Standards Board (“FASB”), Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to apply FASB statements issued after November 30, 1989

Measurement Focus and Basis of Accounting

The operations of the Authority are accounted for as enterprise fund. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenue is recorded when earned, and expenses are recorded at the time liabilities are incurred. Enterprise funds are used to account for those operations for which the pricing policies of the entity establish fees and charges designed to recover its costs, including capital costs such as depreciation and debt service.

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME
TRANSPORT AUTHORITY**
(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents

In the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and are so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates. In particular, they include cash on hand and on deposit and short-term investments with maturities of three months or less.

Receivables

Receivables include amounts due from tenants for the use of facilities under rental and concession agreements. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectible. Allowances are reported when accounts are proven to be uncollectible.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Inventories

Inventories, consisting of fuel, materials and supplies are valued at the lower of cost (first-in, first-out method) or market.

**PUERTO RICO AND MUNICIPAL ISLANDS MARITIME
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(A Component Unit of the Commonwealth of Puerto Rico)

SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011

Capital Assets

Capital assets are recorded at historical cost or estimated historical cost, net of accumulated depreciation and amortization. Contributions of assets from lessees are recorded at fair market value at the date donated. Capital asset is defined by the Authority as assets with an initial cost of more than \$500 and an estimated useful life of more than one year. Depreciation and amortization is computed on a straight-line method over estimated useful lives of the related asset. Maintenance and repairs are charged to operations, while renewals and betterments are capitalized. When property and equipment are disposed of, the cost and applicable accumulated depreciation and amortization are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The Authority periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No evidence of impairment is evident as a result of such review.

Vacation and Sick Leave

Compensated absences are accrued when earned by the employees. Employees may carry forward their compensated absences as permitted by statute and may settle them in a cash payment from the Authority, if employment has ceased.

Net assets

Net assets are classified in the following two components in the accompanying statements of net assets:

Invested in Capital Assets, Net of Related Debt

This component of net assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of this component of net assets. Rather that portion of the debt is included in the same net asset component as the unspent proceeds.

Unrestricted

Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt.

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Operating Revenues and Expenses

The Authority distinguishes between operating and no operating revenues and expenses in its Statement of Revenues, Expenses, and Changes in Net Assets. The principal revenues of the Authority are charges received from patrons for the maritime transportation services provided. The Authority also recognizes as operating revenue the rental fees received from concessionaires from operating leases on concession property. Operating expenses for the Authority include the costs of operating the maritime facilities and related rental spaces, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as no operating revenues and expenses.

Contributions

The Authority is a subrecipient of Federal funds received by the Puerto Rico Ports Authority under grants with Federal Transit Administration (FTA) for the exclusive purpose of acquisition and repairs of certain capital assets. Capital grants of the Authority are reported as non-operating revenues rather than contributed capital as required by GASB Statement No 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

In addition, the Authority receives capital and operating grants from the Commonwealth of Puerto Rico. These grants, are subject to annual appropriations, are used to finance the Authority's operations or acquisition of capital assets.

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage during the past three years. The Authority also pays premiums for workers compensation insurance to another component unit of the Commonwealth of Puerto Rico.

Recently Adopted GASB Statements

The Authority has completed the process of evaluating GASB Statement No. 54, Fund Balance reporting and Governmental Fund Type Definitions. This statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The Authority has determined that GASB No. 54 will have no impact on its financial position, results of operations, and cash flows and therefore it is not applicable to its operation.

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The Authority has completed the process of evaluating the impact that will result from implementing GASB Statement No. 59, Financial Instruments Omnibus which is effective for fiscal years beginning after June 15, 2010 . The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Authority has determined that GASB No. 59 will have no impact on its financial position, results of operations, and cash flows and therefore it is not applicable to its operation at the present time.

Recently Statements Issued by GASB

The GASB has issued Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans which is effective for fiscal years beginning after June 15, 2011. This statement amends Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions, and Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This Statement clarifies actuarially determined OPEB measures reported by an agent multiple-employer OPEB plan and its participating employers. Those measures should be determined by a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirement. The Authority has not yet determined the effect, if any, that the adoption of GASB 57 may have on its financial statements.

The GASB has also issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements (SCA) which is effective for fiscal years beginning after December 15, 2011. The requirement of this statement improve financial reporting by establishing recognition, measurement and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The Authority has not yet determined the effect, if any, that the adoption of GASB 60 may have on its financial statements.

The GASB has also issued Statement No. 61, The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements Nos. 14 and 34 which is effective for fiscal years beginning after December 31, 2011. The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The Authority has not yet determined the effect, if any, that the adoption of GASB 61 may have on its financial statements.

The GASB has also issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements which is effective for fiscal years beginning after December 15, 2011. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and

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financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This statement will improve financial reporting by contribution to the GASB's effort to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The Authority has not yet determined the effect, if any, that the adoption of GASB 62 may have on its financial statements.

The GASB has also issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position which is effective for fiscal years beginning after December 15, 2011. The Statement objective is to provide a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. The Authority has not yet determined the effect, if any, that the adoption of GASB 63 may have on its financial statements.

The GASB has also issued Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions which is effective for fiscal years beginning after June 15, 2011. The Statement will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (1) the collectability of swap payments is considered to be probable, (2) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (3) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied. The Authority has not yet determined the effect, if any, that the adoption of GASB 64 may have on its financial statements.

2. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2011 consist of cash on hands and on deposit.

The Authority is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority.

Pursuant to the Investment Guidelines for the Commonwealth adopted by Government Development Bank for Puerto Rico ("GDB"), the Authority may invest in obligations of the

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Commonwealth, obligations of the United States, certificates of deposit, commercial paper, repurchase agreements, bankers acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. There are no investments at June 30, 2011.

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. Under Puerto Rico statutes public funds deposited in commercial bank must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth of Puerto Rico. The bank balance of the Authority's deposit at June 30, 2011, excluding deposits in Government Development Bank for Puerto Rico described below, amounted to \$234,535, respectively, of which \$234,535 are insured by Federal Deposit Insurance Corporation at June 30, 2011.

In addition, at June 30, 2011, the Authority maintained cash deposited at the Governmental Development Bank for Puerto Rico (GDB), in the amount of \$509,169. This amount is uncollateralized since by law, the governmental banks of the Commonwealth of Puerto Rico are exempt of the requirement of insuring the deposits of funds of the entities of the Commonwealth of Puerto Rico.

2. Accounts Receivable

Accounts receivable at June 30, 2011:

Federal Transit Administration	\$ 2,668,524
Agencies, public corporations and municipalities of the Commonwealth of Puerto Rico	227,808
Customers and other	178,954
Total	<u>3,075,286</u>
Less allowance for doubtful accounts	89,939
Accounts receivable net	<u><u>\$ 2,985,347</u></u>

Amounts due by Federal Transit Administration represent capital and operating grants pending of collection at the end of the fiscal year. Such amounts were collected after the end of the fiscal year.

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3. Capital Assets

The following schedule summarizes the capital assets held by the Authority as of June 30, 2011:

	<u>Balance at June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2011</u>
Assets not being depreciated:				
Land and improvements	\$ 93,323	\$ -	\$ -	\$ 93,323
Construction in progress	6,254,540	10,829,756	(1,147,334)	15,936,962
Total	<u>6,347,863</u>	<u>10,829,756</u>	<u>(1,147,334)</u>	<u>16,030,285</u>
Assets being depreciated:				
Buildings and piers	2,977,038	1,207,659	-	4,184,697
Maritime and other transportation equipment	59,764,490	-	-	59,764,490
Motor vehicles	-	292,968	-	292,968
Furniture and equipment	1,658,291	617,345	-	2,275,636
Total	<u>64,399,819</u>	<u>2,117,972</u>	<u>-</u>	<u>66,517,791</u>
Accumulated depreciation	<u>26,469,432</u>	<u>3,125,742</u>	<u>-</u>	<u>29,595,174</u>
Capital assets being depreciated, net	<u>37,930,387</u>	<u>(1,007,770)</u>	<u>-</u>	<u>36,922,617</u>
Total capital assets, net	<u>\$ 44,278,250</u>	<u>\$ 9,821,986</u>	<u>\$ (1,147,334)</u>	<u>\$ 52,952,902</u>

4. Borrowings Under Line of Credit

During fiscal year 2008, the Government Development Bank (“GDB”) approved an unsecured line of credit in which the Authority may borrow up to \$1,500,000 which was due effective June 30, 2008. Outstanding borrowings bear interest at the three months LIBOR plus 125 base points.

A summary of the activity in the line of credit during the years ended June 30, 2011 follows:

	<u>Balance at 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at 2011</u>	<u>Current Portion</u>
Borrowings under line of credit	<u>\$ 126,203</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,203</u>	<u>\$ 126,203</u>

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5. Accounts and Accrued Expenses Payable

Accounts and accrued expenses payable at June 30, 2011 and 2010 consist of:

Trade payable	\$ 10,873,212
Agencies and public corporations of the Commonwealth of Puerto Rico	3,338,113
Compensated absences	1,400,821
Voluntary termination benefits	133,800
Other accrued expenses	1,001,374
Total	<u>\$ 16,747,320</u>

Amounts due to agencies and public corporations of the Commonwealth of Puerto Rico represents liabilities for payroll taxes withholdings, workmen's compensation insurance, utilities and other related services.

6. Due to Other Government or Instrumentalities

Due to other governmental instrumentalities classified as long-term liabilities at June 30, 2011 and 2010 consist of:

	<u>Balance at 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at 2011</u>	<u>Current Portion</u>
Puerto Rico Ports Authority	50,190,213	-	(15,312,258)	34,877,955	-
Puerto Rico Highways and Transportation Authority	-	3,810,158	-	3,810,158	-
Total	<u>\$50,190,213</u>	<u>\$ 3,810,158</u>	<u>\$(15,312,258)</u>	<u>\$38,688,113</u>	<u>\$ -</u>

Amount due to the Puerto Rico Ports Authority consist of advances for the payment of operating expenses. This amount bears no interest and has no formal repayment terms. The amount outstanding will be paid as cash becomes available, principally from operating grants from the Commonwealth of Puerto Rico. During the year ended June 30, 2011 the Authority received an operating grant in the amount to \$15 million that was used to pay the amount owed to the Puerto Rico Ports Authority.

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Amount due to Puerto Rico Highways and Transportation Authority (PRHTA) consist of amount due for cash advances and expenses paid by PRHTA on behalf of the Authority. This amount bears no interest and has no formal repayment terms.

7. Deferred Revenue

Deferred revenues at June 30, 2011 consist principally of federal funds requested to finance the acquisition of a ferry boat which was already financed with funds from the Commonwealth of Puerto Rico as explained below and other federal grants questioned costs.

During July 2007, the Legislature of the Commonwealth of Puerto Rico approved Resolution No 116 which authorized the Secretary of the Treasury of the Commonwealth of Puerto Rico to transfer \$9,000,000 to the Authority for the sole purpose of financing the acquisition of ferry boats. Management used these funds to finance a ferry boat of 600 passengers with a total cost approximately \$10,600,000.

During the year ended June 30, 2010 and 2009 management requested federal assistance to the Federal Transit Administration (FTA) through the Puerto Rico Ports Authority, the grantee, to finance the same 600 passenger boat. Approval from FTA was obtained and the Authority received \$6,825,119 in federal assistance. The excess funds received between the federal funds and the funds received under Resolution No 116 were used for operational purpose which is not an authorized use under the federal award or Resolution No 116. Management is in conversation with FTA to determine the course of action to correct this situation. The amount of the funds received and improperly used has been recorded as deferred revenue in the accompanying statements of net assets.

8. Retirement Plan

Substantially all the Authority's employees participate in the Retirement System of the Commonwealth of Puerto Rico ("the System"), a cost sharing multi-employer defined benefit pension plan. The payroll for employees covered by the System for the year ended June 30, 2011 was approximately \$13.9 million.

All of the Authority's employees, who at the time of employment are 55 years old or less, are eligible to participate in the System. Employees who retire at or after age 55 with 25 years of credited service or age 58 with 10 years of credited service are entitled to a retirement benefit, payable each month for life, computed based on a benefit rate set forth by Commonwealth statute.

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The System also provides death and disability benefits established by Commonwealth statute. Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Authority is required by the same statute to contribute 9.275% of the participant's gross salary.

On September 24, 1999, an amendment to Act No. 447 of May 1, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Employees joining the Authority on or after January 1, 2001, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that takes into account each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) and investment income as defined in the Plan. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000.

Total employer contributions during the year ended June 30, 2011 under this plan amounted to approximately \$780,000.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2011 and 2010, a copy of which can be obtained from the Retirement System Administration, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

9. Other Post Employment Benefits

The Authority provides certain post employment benefits to eligible employees in accordance with collective bargain agreements. These benefits consist principally of medical insurance coverage for a period not to exceed 5 years after retirement and bonus at retirement date based on years of services. The cost of these benefits is recorded in the financial statements when the related benefit is paid.

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10. Commitments and Contingent Liabilities

Leases

The Authority has various non-cancelable operating leases for office space and pier facilities which expire through July 2025. Most of these leases are with the Puerto Rico Ports Authority, a component unit of the Commonwealth of Puerto Rico. The rental expense for the years ended June 30, 2011 was approximately \$170,000. Future rental payments as of June 30, 2011 under these leases are as follows:

Year Ending	Amount
June 30,	
2012	\$ 136,000
2013	139,000
2014	61,000
2015	61,000
2016	61,000
2017-2021	305,000
2022-2025	<u>244,000</u>
Total	<u>\$ 1,007,000</u>

Litigation

The Authority is involved in litigation arising in the normal course of operations. The Authority believes that its ultimate liability, if any, in connection with these matters will not have a material effect on the Authority's financial condition and results of operations.

Federal Assistance Programs

The Authority is a subrecipient of a federal financial assistance program. This program is subject to audits in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects such amounts, if any, not to be significant.

Construction

At June 30, 2011 the Authority has outstanding construction commitment for the construction and improvements of piers and terminals in the amount of approximately \$14.9 million.

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11. Voluntary Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50 % of each employee' salary, as defined. In this early retirement benefit program, the Authority will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth of Puerto Rico.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of \$2,058,600 in the statement of net assets as of June 30, 2011 and a charge of \$2,131,200 in the statement of activities for the year ended June 30, 2011. At June 30, 2011, unpaid long-term benefits granted on this program were discounted at 2.99%.

The following table summarizes the activity of voluntary termination benefits during the year ended June 30, 2011:

	<u>Balance at 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at 2011</u>	<u>Current Portion</u>
Voluntary termination benefits	\$ -	\$ 2,131,200	\$ 72,600	\$ 2,058,600	\$ 133,800

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12. Operating Financial Assistance from the Commonwealth of Puerto Rico

As shown in the accompanying financial statements the Authority has incurred in accumulated losses after operating and capital contributions in the amount of \$57.6 million and as of June 30, 2011 the Authority's liabilities exceeded its assets by approximately \$8.1 million. In addition, at June 30, 2011 the Authority has a working capital deficiency of approximately \$20.4 million making it difficult for the Authority to pay its liabilities in the normal course of business. These facts indicate that the Authority needs the continued support from the Commonwealth of Puerto Rico in the form of operating grants to continue to operate at its present level and to continue as a going concern. The Commonwealth of Puerto Rico has experienced budget constrains during the current and prior years which have resulted in reductions in the operating grants provided to the Authority. Management believes that since the maritime service provided by the Authority to the residents of Vieques and Culebra is an essential service, the Commonwealth will continue to fund the operational deficits incurred by the Authority. Any significant reduction in these operating grants and financial support will affect the ability of the Authority to provide the maritime services and to continue as a going concern.